

Enterprise Funds

Description

The City uses three separate Enterprise Funds to account for the activity of this proprietary fund type. The individual funds are Water & Sewer, Solid Waste, and Aviation. In the aggregate, the Enterprise Funds are the City's second largest source of revenues, which are derived from user fees and charges. User fees and charges are established to promote efficiency by shifting payment of costs to specific users of services and avoiding general taxation. Moderate rate increases are included as part of this budget to offset increasing operating costs, mandated environmental standard compliance, and pay-as-you-go capital costs attributable to repair and replacement of infrastructure. The applicable specific revenues of the individual funds along with each fund's purpose are described below:

Water & Sewer Funds

Fund Purpose

This fund accounts for the activity related to the City's water and sewer business activity, including operating and debt service payments. Capital Expenditures are accounted for in various CIP funds.

Water & Sewer Funds Revenues and Transfers-In

Water Charges Revenue adopted budget for FY 2004/05 totals \$70.8 million, which reflects a \$1.4 million increase or 2.0% from FY 2003/04 year-end estimate. The increase is a combination of an increase in the water rate and growth from anticipated new customers, partially offset by a decrease in water consumption. Monthly water billings consist of a base charge according to meter size and a variable charge for the amount of water consumed. The FY 2004/05 budget includes a 2.5% water rate increase for increased operating and capital costs resulting from the following "unfunded" mandated and proposed regulations from the United States Environmental Protection Agency (EPA): (1) EPA Mandatory Arsenic Rule requiring that utilities decrease the maximum contaminant level of arsenic in drinking water from 50 parts per billion to 10 parts per billion by 2006; and (2) Pending EPA Disinfection by-product regulation (by-products resulting from adding chlorine to water) requiring that water systems in the United States reduce Disinfection by-products in potable water at all points of delivery in the system. The City anticipates required compliance by 2006. These significant federal "unfunded" mandates will require costly improvements to Scottsdale's water treatment and delivery systems in order to meet the new requirements.

Because the majority of the City's groundwater resources exceed the new standard for arsenic, the City is particularly susceptible to arsenic related cost increases. The City must continue its reliance on groundwater, where arsenic is naturally occurring, for peak demand and drought protection. Therefore, the City has incorporated an arsenic mitigation program into its capital improvement program to ensure that the City's groundwater supply resources will be in

Water Charges Revenue Adopted Budget to Actual/Estimate* (in millions)		
Fiscal Year	Adopted Budget	Actual/Estimate*
2004/05	\$70.8	\$70.8*
2003/04	\$71.4	\$69.4*
2002/03	\$65.9	\$66.7
2001/02	\$62.5	\$65.1

compliance with the Arsenic Rule by January 2006. The arsenic mitigation program has identified the most cost-effective method for treating the groundwater, has initiated land acquisition for planned treatment facilities, and has secured contracts for the design and construction of these facilities. The estimated cost for this program is approximately \$59.5 million during the planning horizon. This program benefits existing customers.

As noted, the City must also address environmental regulations that require all water systems in the United States to reduce the maximum contaminant level of disinfection by-products in potable water at all points of system delivery. To ensure compliance, the City will add granular-activated carbon to its treatment processes at its treatment facilities. Total projected costs for disinfection by-products compliance is \$40.0 million for existing customers. The total capital costs for the City to address these "unfunded" federal mandates is approximately \$100.0 million

The financial plan to address these requirements calls for debt issuance that will help level the impacts to our customers over many years, thereby avoiding large rate increase in any one year.

Overview of User Fees Revenue Policy

Enterprise User Fees rate adjustments are based upon five-year financial plans developed for each operation, and are reviewed annually per Scottsdale's adopted financial policies to meet the stated objectives of:

- Equity — charges are borne by the beneficiaries of a project or service;
- Level distribution of necessary cost increases — to avoid large rate increases in any one year;
- Increasing debt as little as possible — to ensure that the City can meet bond coverage requirements and remain financially healthy;
- Rate design — which encourages conservation and efficient use of City resources.

Sewer Charge Revenue budget for FY 2004/05 totals \$26.1 million, which reflects a \$0.7 million or 2.9% increase from the FY 2003/04 year-end estimates. The increase is a combination of an increase in the sewer rate and growth from anticipated new customers. Residential customers are charged a flat fee per month and commercial users are charged based upon water consumption and type of business. Fees are studied annually to determine if they are covering the cost of providing this service. The FY 2004/05 budget includes a 3.0% rate increase for the costs associated with expansion and upgrades to wastewater treatment facilities.

Effluent Sales revenue budget totals \$0.5 million, which reflects approximately a \$0.1 million increase from the FY 2003/04 year-end estimate. Effluent sales relate to the sewage treated to irrigation standards at the City's Water Campus for the 23 golf courses in north Scottsdale that are part of the Reclaimed Water Distribution System and the Gainey Ranch golf course effluent use from that regional wastewater plant. Both are contractual obligations to provide effluent water for irrigation uses and all costs for providing these services are recovered through rates charged for the use.

Sewer Charge Revenue Adopted Budget to Actual/Estimate* (in millions)

Fiscal Year	Adopted Budget	Actual/Estimate*
2004/05	\$26.1	\$26.1*
2003/04	\$25.9	\$25.4*
2002/03	\$26.8	\$25.5
2001/02	\$26.5	\$24.3

Effluent Sales Adopted Budget to Actual/Estimate* (in millions)

Fiscal Year	Adopted Budget	Actual/Estimate*
2004/05	\$0.5	\$0.5*
2003/04	\$0.4	\$0.4*
2002/03	\$0.3	\$0.5
2001/02	\$0.4	\$0.4

Interest Earnings are generated on idle Water & Sewer Fund cash balances throughout the year. This revenue is a function of the relationship between the available cash balance and interest rate. The City earns interest on idle funds through various investment vehicles in accordance with Arizona Revised Statutes and City Ordinance. The City's investment policy stresses safety above yield and allows investments in U.S. Treasury and Agency obligations, certificates of deposit, commercial paper, bankers' acceptances, repurchase agreements, money market funds, and the State of Arizona's Local Government Investment Pool. Interest revenue for FY 2004/05 of \$1.1 million reflects a \$1.0 million decrease from the FY 2003/04 year-end estimate. This decrease is a result of low interest rates and fluctuating account balances.

Miscellaneous Revenue budget totals \$2.2 million for FY 2004/05, which is nearly a \$1.1 million increase from the FY 2003/04 year-end estimate. Receipts from the Central Groundwater Treatment Facility Superfund site are the primary revenue contributor.

Interest Earnings Adopted Budget to Actual/Estimate* (in millions)		
Fiscal Year	Adopted Budget	Actual/Estimate*
2004/05	\$1.1	\$1.1*
2003/04	\$2.1	\$2.1*
2002/03	\$2.3	\$0.5
2001/02	\$5.3	\$2.0

Miscellaneous Revenue Adopted Budget to Actual/Estimate* (in millions)		
Fiscal Year	Adopted Budget	Actual/Estimate*
2004/05	\$2.2	\$2.2*
2003/04	\$1.2	\$1.2*
2002/03	\$3.9	\$7.1
2001/02	\$3.8	\$3.3

Transfers-In include the \$6.6 million portion of Sewer Development fee revenues received in the enterprise capital improvement fund, which is transferred to the General Fund budget to pay debt service on revenue bonds issued for development-related capital improvements. The FY 2004/05 budget remains consistent with the FY 2003/04 year-end estimate.

Water & Sewer Fund Expenditures By Expenditure Type

The Water & Sewer Fund expenditures are presented by the following five major expenditure categories: personal services, contractual services, commodities, capital outlay, and debt service. Additionally, there are transfers-out to other funds.

Personal Services budget of \$11.3 million represents 17.6% of the FY 2004/05 Water & Sewer operating budget. The adopted FY 2004/05 personal services budget increased \$0.7 million from the FY 2003/04 adopted budget. Major personal services cost drivers in the budget include increases of \$0.6 million related to health insurance costs, retirement system costs, a 2.5% salary market adjustment, and an additional 3.0 FTEs for increased maintenance efforts at both existing and new facilities at a cost of \$0.1 million for FY 2004/05.

Personal Services Adopted Budget to Actual/Estimate* (in millions)		
Fiscal Year	Adopted Budget	Actual/Estimate*
2004/05	\$11.3	\$11.3*
2003/04	\$10.6	\$10.6*
2002/03	\$9.9	\$9.7
2001/02	\$9.9	\$9.6

Contractual Services budget of \$20.1 million represents 31.3% of the FY 2004/05 Water & Sewer operating budget. The budget increased \$1.2 million from the FY 2003/04 adopted budget due to the 91st Avenue Wastewater Treatment Plant billing estimates from the City of Phoenix based on strengths and flows.

Contractual Services Adopted Budget to Actual/Estimate* (in millions)		
Fiscal Year	Adopted Budget	Actual/Estimate*
2004/05	\$20.1	\$20.1*
2003/04	\$18.9	\$18.9*
2002/03	\$17.9	\$16.6
2001/02	\$19.5	\$18.4

Commodities budget of \$13.5 million represents 21.0% of the FY 2004/05 Water & Sewer operating budget. The adopted FY 2004/05 commodities budget increased \$0.7 million from the FY 2003/04 adopted budget related to water treatment chemicals and lab supplies.

Commodities Adopted Budget to Actual/Estimate* (in millions)		
Fiscal Year	Adopted Budget	Actual/Estimate*
2004/05	\$13.5	\$13.5*
2003/04	\$12.8	\$12.8*
2002/03	\$13.6	\$12.3
2001/02	\$14.5	\$11.8

See glossary for
Expenditure Type
definitions.

Capital Outlay budget for FY 2004/05 is \$0.1 million, which is 0.2% of the FY 2004/05 Water & Sewer operating budget. The adopted FY 2004/05 budget increase of \$0.1 million is related to the purchase and upgrades of water trucks to meet additional workload capacity needs and address safety requirements.

Capital Outlay Adopted Budget to Actual/Estimate* (in millions)		
Fiscal Year	Adopted Budget	Actual/Estimate*
2004/05	\$0.1	\$0.1*
2003/04	-	-
2002/03	-	\$0.1
2001/02	\$0.2	\$0.2

Debt Service budget of \$19.3 million represents 30.5% of the FY 2004/05 Water & Sewer operating budget. The adopted FY 2004/05 debt services budget increased \$5.3 million from the FY 2003/04 adopted budget related to issuance and sale of \$75.0 million principal amount MPC Bonds issued May 1, 2004. General Obligation Bond debt service for bonds previously issued decreased \$0.4 million, or 7.1%. Revenue Bond debt service for bonds previously issued remained unchanged. Debt service payments are funded from water and sewer service fees and an annual transfer of \$4.9 million in sewer development fees from the Capital Improvement Program.

Debt Service Adopted Budget to Actual/Estimate* (in millions)		
Fiscal Year	Adopted Budget	Actual/Estimate*
2004/05	\$19.3	\$19.3*
2003/04	\$14.0	\$19.8*
2002/03	\$15.9	\$11.4
2001/02	\$13.0	\$14.5

Transfers-Out equals \$42.2 million, which is an increase of \$17.4 million over the prior year budget. The increase is primarily attributable to an increase in the capital fund transfer. The other transfers-out to the General Fund includes \$0.2 million for the City's security contract.

Water & Sewer Fund Balance/Reserves

Fund Balance/Reserves protect the City's financial condition and provide for unexpected economic challenges. Growth of fund balance occurs when revenues exceed expenditures. Fund balances are similar to a company's net equity (assets less liabilities). Prudent fiscal management dictates fund balances should only be used for nonrecurring (non-operational) expenditures since once fund balances are spent; they are only replenished by future year resources in excess of expenditures.

The City's budget planning and adopted financial policies call for the establishment of reserves as part of the resource allocation/limit setting process. This process allows the City to "set aside savings" before it is allocated or spent as budgeted expenditures. The specific make-up of the City's fund balance and reserves are noted below:

Operating Reserve of approximately \$18.3 million is projected for the end of FY 2004/05. This reserve is intended to ensure adequate funding for operations for a period of 90 days.

Repair/Replacement Reserve of approximately \$16.4 million is required by the revenue bond indenture to ensure that funds are set aside to preserve the assets, which in turn are the collateral for the Water Revenue Bonds. The reserve is required to be at least 2.0 percent of the revenues received during the year, or until the reserve equals 2.0 percent of the value of total tangible assets. The reserve may be used from time to time for replacement or extension of the assets.

Unreserved Fund Balance for FY 2004/05 is zero. This fund balance represents the net financial resources that are expendable or available for budgeting. In the event there is a remaining unreserved fund balance at fiscal year-end, the balance is transferred to the Capital Improvement Program.

Solid Waste Fund

Fund Purpose

This fund accounts for the transactions related to the City's solid waste and recycling business activity, including operating and debt service payments. Capital expenditures are accounted for in a separate Capital Improvement Plan fund.

Solid Waste Fund Revenues

Solid Waste Revenue budget for FY 2004/05 totals \$16.7 million, which reflects a \$0.5 million or 3.4% increase in Solid Waste revenue from the FY 2003/04 year-end estimate. The nominal increase is solely attributable to growth from anticipated new customers. Solid Waste Charges are billed monthly for the pickup of solid waste. Residential customers are charged a flat fee per month, while commercial customers are charged based upon the size of the container and the number of pickups per month. In addition, the City also provides roll-off, uncontained service, recycling programs, and household hazardous waste collection. The FY 2004/05 budget includes no rate increase for residential and commercial customers.

Interest Earnings budget of \$40,468 for FY 2004/05 is expected to remain relatively flat with the FY 2003/04 year-end estimate. Interest Earnings are generated on idle Solid Waste Fund cash balance throughout the year. This revenue is a function of the relationship between the available cash balance and interest rate. The City earns interest on idle funds through various investment vehicles in accordance with Arizona Revised Statutes and City Ordinance. The City's investment policy stresses safety above yield.

Solid Waste Revenue Adopted Budget to Actual/Estimate* (in millions)		
Fiscal Year	Adopted Budget	Actual/Estimate*
2004/05	\$16.7	\$16.7*
2003/04	\$16.2	\$16.2*
2002/03	\$16.1	\$16.3
2001/02	\$16.2	\$15.8

Interest Earnings Adopted Budget to Actual/Estimate*		
Fiscal Year	Adopted Budget	Actual/Estimate*
2004/05	\$40,468	\$40,468*
2003/04	\$48,700	\$48,700*
2002/03	\$44,013	\$41,918
2001/02	\$35,000	\$55,200

Solid Waste Fund Expenditures By Expenditure Type

The Solid Waste Fund expenditures are presented by the following five major expenditure categories: personal services, contractual services, commodities, capital outlay, and debt service. Additionally, there are transfers-out to other funds.

Personal Services budget of \$4.3 million represents 32.3% of the FY 2004/05 Solid Waste Fund budget. The adopted FY 2004/05 personal services budget increased \$0.1 million or 2.0% from the FY 2003/04 adopted budget. The budget does not include any additional positions. Major personal services cost drivers in the budget include increases in health insurance costs and retirement system costs, and a 2.5% salary market adjustment.

Personal Services Adopted Budget to Actual/Estimate* (in millions)		
Fiscal Year	Adopted Budget	Actual/Estimate*
2004/05	\$4.3	\$4.3*
2003/04	\$4.2	\$4.2*
2002/03	\$3.9	\$4.0
2001/02	\$3.8	\$3.7

Contractual Services budget of \$8.3 million represents 62.4% of the FY 2004/05 Solid Waste Fund budget. The adopted FY 2004/05 contractual services budget increased \$0.1 million or 1.0% from the FY 2003/04 adopted budget due in part to increased costs related to fleet maintenance and operations.

Contractual Services Adopted Budget to Actual/Estimate* (in millions)		
Fiscal Year	Adopted Budget	Actual/Estimate*
2004/05	\$8.3	\$8.3*
2003/04	\$8.2	\$8.2*
2002/03	\$8.0	\$7.7
2001/02	\$7.9	\$7.6

Commodities budget of \$0.3 million represents 2.3% of the FY 2004/05 Solid Waste Fund budget. The adopted FY 2004/05 commodities budget increased \$14,769 from the FY 2003/04 adopted budget related to the purchase of additional refuse containers.

Commodities Adopted Budget to Actual/Estimate* (in millions)		
Fiscal Year	Adopted Budget	Actual/Estimate*
2004/05	\$0.3	\$0.3*
2003/04	\$0.3	\$0.3*
2002/03	\$0.4	\$0.3
2001/02	\$0.6	\$0.4

See glossary for
Expenditure Type
definitions.

Capital Outlay budget of \$70,000 represents 0.8% of the FY 2004/05 Solid Waste Fund budget. Funds will be used to purchase a new compact loader and trailer for more effective bulk collection services to residents.

Capital Outlay Adopted Budget to Actual/Estimate* (in millions)		
Fiscal Year	Adopted Budget	Actual/Estimate*
2004/05	\$70,000	\$70,000*
2003/04	-	-
2002/03	\$231,452	\$7,530
2001/02	\$23,688	\$12,730

Debt Service includes approximately \$0.3 million for the payment of MPC debt service on the Transfer Station. The amount of the debt service is consistent with the prior year.

Debt Service Adopted Budget to Actual/Estimate* (in millions)		
Fiscal Year	Adopted Budget	Actual/Estimate*
2004/05	\$0.3	\$0.3*
2003/04	\$0.3	\$0.3*
2002/03	\$0.3	\$0.3
2001/02	\$0.3	\$0.3

Transfers-Out equals \$2.5 million, which is an increase of \$0.5 million from the FY 2003/04 year-end estimate. The other transfers-out to the General Fund includes \$0.4 million for the Enhanced Maintenance Services Pilot Program in the downtown, covering more than 700 acres.

Solid Waste Fund Balance

Operating Reserve of \$3.3 million is projected for the end of FY 2004/05. This reserve is intended to ensure adequate funding for operations for a period of 90 days. The intent of the reserve is to provide for emergencies and the probability of significant future increases in landfill costs.

Unreserved Fund Balance of \$1.9 million represents the net financial resources that are expendable or available for budgeting.

Aviation Fund

Fund Purpose

This fund accounts for the transactions related to the City's aviation business activity at the Scottsdale Airport, which includes operating and debt service payments. Capital Expenditures are accounted for in a separate CIP fund.

Aviation Fund Revenues

Aviation Fees and Charges are for a variety of services provided to airport customers including tie down fees, hangar rentals, fuel sales, and other rental charges. The FY 2004/05 budget of \$2.9 million remains flat with the FY 2003/04 year-end estimate. No rate increase is included in FY 2004/05.

Interest Earnings budgeted amount for FY 2004/05 totals \$20,276, which is up from the FY 2003/04 year-end estimate of \$9,924.

Aviation Fees and Charges Adopted Budget to Actual/Estimate* (in millions)		
Fiscal Year	Adopted Budget	Actual/Estimate*
2004/05	\$2.9	\$2.9*
2003/04	\$2.9	\$2.9*
2002/03	\$2.4	\$2.4
2001/02	\$1.5	\$1.7

Transfers-In budget of \$0.1 million for FY 2004/05 is related to jet fuel tax collected and receipted in the General Fund and transferred to reimburse the Aviation Fund. This is strictly a tax receipt process and is not a General Fund subsidy to the Aviation Fund.

Aviation Fund Expenditures By Expenditure Type

The direct operating expenditures of the Aviation Fund are divided into the following three major expenditure categories, plus transfers-out:

Personal Services budget of \$0.8 million represents 57.1% of the FY 2004/05 Aviation funds operating budget. The adopted FY 2004/05 personal services budget increased by less than \$0.1 million from the FY 2003/04 adopted budget. The major personal services cost drivers in the budget include increases in health insurance costs and retirement system costs, and a 2.5% salary market adjustment.

Personal Services Adopted Budget to Actual/Estimate* (in millions)		
Fiscal Year	Adopted Budget	Actual/Estimate*
2004/05	\$0.8	\$0.8*
2003/04	\$0.7	\$0.7*
2002/03	\$0.7	\$0.7
2001/02	\$0.6	\$0.6

See glossary for
Expenditure Type
definitions.

Contractual Services budget of \$0.5 million represents 35.7% of the FY 2004/05 Aviation funds operating budget. The adopted FY 2004/05 budget remains flat with the FY 2003/04 adopted budget.

Contractual Services Adopted Budget to Actual/Estimate* (in millions)		
Fiscal Year	Adopted Budget	Actual/Estimate*
2004/05	\$0.5	\$0.5*
2003/04	\$0.5	\$0.5*
2002/03	\$0.5	\$0.6
2001/02	\$0.5	\$0.5

Commodities budget of \$0.1 million represents 4.4% of the FY 2004/05 Aviation funds operating budget, which remains relatively flat with the FY 2003/04 adopted budget.

Commodities Adopted Budget to Actual/Estimate*		
Fiscal Year	Adopted Budget	Actual/Estimate*
2004/05	\$0.1M	\$0.1M*
2003/04	\$61,670	\$61,670*
2002/03	\$64,670	\$31,176
2001/02	\$50,795	\$77,090

Transfers-Out equal \$1.4 million, which is an increase of \$0.4 million from the FY 2003/04 year-end estimate.

Aviation Fund Balance

Operating Reserve of slightly more than \$0.5 million is projected for the end of FY 2004/05. This reserve is intended to ensure adequate funding for operations for a period of 90 days. The intent of the reserve is to provide for emergencies, provide for potential grant matches, and to ensure that further General Fund subsidies are avoided.

Repair and Replacement Reserve of \$0.3 million is projected for the end of FY 2004/05. The intent of the reserve is to ensure adequate funding for emergency repair and replacement.